

TOWN OF EGREMONT, MASSACHUSETTS
MANAGEMENT LETTER
FOR THE YEAR ENDED JUNE 30, 2012

TOWN OF EGREMONT, MASSACHUSETTS

Management Letter

Year Ended June 30, 2012

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To the Board of Selectmen
Town of Egremont
Egremont, Massachusetts

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Town of Egremont, Massachusetts as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Egremont's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. *A significant deficiency* is a deficiency, or combination of control deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies to be significant deficiencies in internal control:

A significant deficiency was identified as Items 2012-1, 2012-2 and 2012-3.

Also, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We have already discussed these comments and suggestions with Town personnel. We will be pleased to discuss them in further detail and to assist you in implementing the recommendations.

This report is intended solely for the information and use of the management, the Selectboard, others within the entity and the Commonwealth of Massachusetts Department of Revenue and is not intended to be and should not be used by anyone other than these specified parties.

Scanlon & Associates LLC
Scanlon & Associates, LLC
South Deerfield, Massachusetts

September 30, 2013

CURRENT YEAR COMMENTS AND RECOMMENDATIONS - SIGNIFICANT DEFICIENCIES

2012-1 Tax Collector Accounts Receivable Reconciliations (Significant Deficiency)

Comment:

During our audit we found that effective procedures were not in place to reconcile the Tax Collector's accounts receivable subsidiary records to the general ledger. We noted that the Tax Collector's office is properly maintaining the accounts receivable subsidiary ledgers. However, the subsidiary records are not effectively reconciled to the general ledger on a periodic basis (monthly, quarterly).

Effective internal controls require timely and proper reconciliation of the accounts receivable subsidiary records to the general ledger. Failure to perform these tasks timely and properly increases the risk of misstatement due to error or fraud, prohibits the safeguarding of assets and does not provide for accurate a timely financial reporting.

We recommend that procedures be implemented to reconcile the Tax Collector's accounts receivable subsidiary records to the general ledger on a monthly basis. All variances should be investigated and resolved in a timely manner. To further strengthen this control the Town should document this process by having a sign off by the two department heads.

2012-2 Water Accounts Receivable Reconciliations (Significant Deficiency)

Comment:

During our audit we found the water accounts receivable subsidiary records were not being effectively reconciled to the general ledger. Variances exists between the water accounts receivable subsidiary records and the general ledger as outlined below:

Account	General Ledger Balance June 30, 2012	Receivable Subsidiary Balance June 30, 2012	Variance
Water User Outstanding Accounts	\$ 20,033	\$ 16,473	\$ 3,560
Collections	136,618	140,070	(3,452)
Abatements/Adjustments	-	3,097	(3,097)
Commitments	131,482	131,482	-

Effective internal controls require timely and proper reconciliation of the accounts receivable subsidiary records to the general ledger. Failure to perform these tasks timely and properly increases the risk of misstatement due to error or fraud, prohibits the safeguarding of assets and does not provide for accurate a timely financial reporting.

We recommend that procedures be implemented to reconcile the water accounts receivable subsidiary records to the general ledger on a monthly basis. All variances should be investigated and resolved in a timely manner.

2012-3 Improve Cash and Investment Reconciliations (Significant Deficiency)

Comment:

During our audit we noted a cash variance (\$2,213) existed on June 30, 2012 between the Treasurer's banks and the Town Accountant's general ledger. We also noted that the amount of the variance was not consistent every month throughout the fiscal year. The Town has certain procedures in place to reconcile cash and investments; however we feel that they could be improved. The Treasurer is maintaining a cashbook and performing monthly individual bank reconciliations. However, we noted that improvements could be made on the monthly reconciliation of the Treasurer's records to the Town Accountant's general ledger.

We recommend that the Town Accountant and Treasurer improve the cash and investment reconciliation process by documenting and properly identifying all reconciling items.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

1. Water Fund

Comment:

As of June 30, 2012 the water undesignated fund balance on a modified cash basis has a deficit balance of approximately \$15,800. This would not be considered financially healthy by municipal financial standards. The undesignated fund balance at June 30, 2011 had a deficit balance of approximately \$15,928, the change is outlined below:

Undesignated Fund Balance July 1, 2011		\$	(15,928)
Revenues:			
Budget	\$	156,345	
Actual		<u>136,618</u>	(19,727)
Expenditures:			
Budget		249,102	
Actual		225,376	
Encumbered		<u>14,106</u>	9,620
Transfers In/(Out):			
Prior Year Deficit Raised on Tax Rate			10,233
General Fund Subsidy:			
Budget		78,000	
Actual		<u>78,000</u>	-
Undesignated Fund Balance June 30, 2012		\$	<u>(15,802)</u>

Its apparent from the above analysis the water revenues are not sufficient to cover the operating costs of the water fund. The water rate is comprised of two parts, one being based on consumption and the other part a fixed rate for debt service. The 2012 water commitments totaled \$145,869, which is made up of \$88,808 of consumption and \$57,062 of fixed debt service. The actual debt service expenditures for fiscal year 2012 were \$70,690, thus creating a deficit of \$13,628 for debt service. Upon further research it was noted that the debt service billing was not billed on a monthly basis (12) which differed on how the rate was established. We recommend that the Town monitor and research this matter and determine if rates should be increased to reflect the operating costs.

2. Payroll Withholdings

Comment:

During our audit we noted that payroll withholding account balances are not being properly reconciled. Because these accounts have essential annual activity and carry with them statutory tax liabilities, among other responsibilities, we recommend that these accounts be accounted for accurately and consistently. A proper and timely reconciliation of payroll withholdings would minimize and control potential discrepancies from occurring.

We recommend that all withholding accounts be reconciled monthly to the applicable governmental regulations and source documents to insure that proper employee contributions are being made and relieved.

3. Procurement – Chapter 30B

Comment:

Massachusetts General Laws Chapter 30B requires that purchases of \$5,000 to \$25,000 be supported by documentation that quotes were obtained by at least three vendors and that expenditures of \$25,000 or more be subjected to a formal bidding process. During our audit we tested the Town's compliance of Chapter 30B. We noted instances in which the procurement laws were not met or we could not find documentation of compliance. We communicated these instances with personnel during our fieldwork. We recommend that all departments comply with the procurement requirements under MGL chapter 30B and also retain a record of their actions for procurement.

4. Review Special Revenue Accounts

Comment:

During our audit we noted the Town has several special revenue accounts that have balances that are not supported by proper documentation, have a deficit balance or did not have activity for several fiscal years. The Town should review all special revenue accounts to determine if the accounts are needed and that balances have proper supporting documentation.

5. Financial Policies and Procedures Manual

Comment:

Internal control is defined as "a process – effected by those charged with governance, management and other personnel – designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The components of internal control apply to all entities, although smaller entities may implement them differently from larger entities. The controls in a smaller organization, such as the Town of Egremont, may be less formal and less structured, yet the objective of small and large organizations should be the establishment of effective internal control. Internal control consists of five interrelated components:

- The Control Environment
- Risk Assessment
- Information and Communication Systems
- Control Activities
- Monitoring

In order to improve and maintain the existing system of internal controls, the Town should consider documenting the policies, procedures and controls over key financial transactions, which have been in place and relied upon over the years. The Financial Policies and Procedures should include an investment policy, a personnel policy (of which the Town has), a risk assessment policy, and a formal documentation of the detailed financial reporting policies and procedures. A written Financial Policies and Procedures Manual will help improve the efficiency and consistency of transactional processing and establish responsibilities for specific duties.

Auditing standards currently in effect require auditors to consider and evaluate what the auditee is doing internally as part of an ongoing "Risk Assessment Process." Part of the assessment includes a review of available, documented policies and procedures. We recommend the Town develop and document a Financial Policies and Procedures Manual. The documentation should describe relevant procedures as they are intended to be performed and explain the design and purpose of control-related procedures, including your risk assessment process with regard to financial reporting.

6. Capital Assets

Comment:

GASB No. 34 requires that capital assets be on the financial statements for tier 3 governments starting in fiscal year 2004. The Town in previous audits had compiled a list of capital assets and was in compliance with GASB No. 34. During our audit we tested the capital assets and found that the Town did not keep adequate records with regard to additions, deletions and depreciation.

We recommend that the Town adopt a procedure to records additions and deletions to its capital assets. Having a procedure in place will insure that all capital assets are being accounted for under the financial reporting model of GASB # 34.

7. GASB Statement No. 45 – Other Post-Employment Benefits (OPEB)

Comment:

The Town has met the requirements for implementation of GASB Statement No. 45, Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions. Now it is necessary for the Town to understand the requirement necessary to stay in compliance with the statements. A government with fewer than one hundred total plan members has the option to apply a simplified alternative measurement method instead of obtaining actuarial valuations to calculate it's OPEB cost.

The Town has elected to use a simplified alternative measurement method and purchased software to calculate the OPEB cost and obligation for fiscal year 2012. The Town will need to have the information updated for future financial statement disclosures.